

POINT OF VIEW

Recovery and resilience in default management

How banks can weather the storm and
prepare for the future

As the year began, some economists were bullish on the economy. Yes, there were signs that a recession could be coming: the US-China trade war, Brexit uncertainty, soft spending in Australia due to drought and bushfires, an inverted yield curve in the US bond market last summer. But no one could have anticipated a Coronavirus-induced downturn.

Fast-forward. Today, markets are volatile. Unemployment claims are rising. And a recession may no longer be avoidable. In fact, some say that it's already here - even if the data isn't in yet.

As a result, federal agencies are now encouraging financial institutions to prepare for more consumers experiencing financial hardship. But how? The answer lies in accelerating a transition that was already underway. Default-management organizations must focus on three key areas:

- *Customer experience*
- *Augmented intelligence*
- *Operating model*

Customer experience

First things first, it is imperative for financial institutions to strike a balance between empathy with their customers and their corporate needs and responsibilities.

In Genpact's report, [Banking In The Age of Instinct](#), we predicted that, to survive and thrive, banks would need to shift from being authoritative and functional to being more supportive and emotional. The time for banks to make that shift is now.

This means transitioning from simply collecting debts to enabling financial betterment - in this case, working with customers to restructure loans and make payments more manageable.

We believe that customers have certain rights when dealing with collections organizations. For example, they should:

- Be respected, listened to, and treated with empathy
- Understand what delinquency means and how it impacts their financial health
- Receive assistance to prevent delinquencies in the first place
- Have choices for the method and timing of their payments
- Receive personalized treatment

Honoring these rights becomes more important with each passing week. In the short term, the fight to be at the 'top of the wallet' for receiving payments will intensify. Even within the same asset class, customers may have more than one debtor to whom they owe money. Those lenders who deliver on customer experience will be paid first and will come out much stronger than their counterparts when this crisis is over.

Augmented intelligence

With the closure of collections centers and an increase in agent absenteeism due to illness or self-isolation, banks have fewer resources to face the mounting wave of delinquencies. Even if a bank scales up and the resource situation stabilizes, there will be a bigger economic problem. Specifically, we expect collections volumes to double in the medium term and increase by up to eight

times in the next two to three years. As a result, the sheer volume of delinquencies will overwhelm collections agents.

As a result, collections organizations need to rethink the balance between human intervention and the use of digital technologies. Banks need to use advanced technologies and analytics to enhance people's capabilities, helping collections agents to work smarter, not harder. This is augmented intelligence.

Moving toward a digital-first contact center mentality

Customer contact preferences have been steadily shifting away from the traditional methods lenders use for addressing delinquency, such as phone calls and letters, toward digital channels. With the recent crisis, however, almost everything has suddenly shifted online. This abrupt digitization means that banks must quickly enable their customers to pay off debt with the click or touch of a button.

Digital payment channels - such as SMS, email, chat, mobile apps, and the web - provide options and choices for customers when it comes to the method and timing of payments. These channels also help the bank, especially as regulators place limits on traditional collections activities. For example, in the US, the Consumer Financial Protection Bureau is now proposing to limit the number of calls debt collectors may place to reach consumers to seven per customer per week. Digital channels provide default-management organizations with another means of reaching the customer. Self-service payment methods also reduce operational cost for the bank. Though a text costs virtually nothing, for example, phone calls may cost a dollar per minute.

Using analytics across the debt management cycle

Data analytics can help collections organizations unlock insights that they can use to make more informed business decisions. Specifically, banks can and should be using analytics to:

- **Continuously monitor portfolio health:** The current business environment is dynamic and volatile - and it's undermining many banks' key trading assumptions. Banks need to assess the impact of market changes on their portfolio and key performance indicators such as losses, reserves, and delinquencies. And they need to keep reforecasting to prepare themselves to react to changing conditions in the best possible way.

Banks can use analytics to help their collections organizations assess delinquency volumes, evaluate processes, and identify what's working and what's not so they can optimize their models

- **Reset collections strategies at a segment level:** A collections strategy that was valid a few months or even a few weeks ago may not be valid today. As a result, resetting collections strategies has taken on new urgency. Due to resource constraints, a default-management organization may need to focus only on high-risk customers for a time. It may then need to pivot to develop specific treatment strategies for customers in the hardest-hit areas. When risk levels are changing dynamically, analytics can help segment and prioritize clusters of customers and accounts with agility. Banks need to use analytics to drive strategies from pre-delinquency through charge-off
- **Re-evaluate customer risk profiles and hyper-personalize treatment strategies:** Today's treatment strategies must be more agile and personalized, not just on a segment level but also on a customer level. For example, is your collections organization considering payment holidays for customers whose credit card histories show recent travel to Iran or hospital stays? Banks must proactively stay on top of changing risk profiles for individual customers, especially for those who are experiencing hardship and could potentially become delinquent - even if they had no past delinquency history - and re-age or develop personalized treatment strategies for them
- **Improve agent performance:** You can't manage what you can't measure. Manual call monitoring is time and labor intensive and is possible only with a small sampling of calls. Meanwhile, speech analytics allows collections organizations to record and monitor 100% of calls and objectively analyze them to gather insights.

These insights may then be turned into customized agent training to deliver compliance and improve customer experience. For example, speech analytics can be used to evaluate whether agents are following federal guidelines that prevent them from using threatening language

Operating model

In 2008, banks increased their collections staff to handle the growing number of delinquencies from the global financial crisis. Then, like a wrenching second act in the crisis, agent layoffs arrived in force. If banks do not scale intelligently, we forecast that they will need to hire up to 150% more collections staff to keep up with the anticipated increase in volume. And history will repeat itself.

The current crisis has brought to light the fact that banks need to determine the best options for their immediate business continuity needs and identify the most effective longer-term operational models.

In [Banking In The Age of Instinct](#), we also predicted that in this increasingly volatile world, banks would need to employ strategies to counter shocks and de-risk the balance sheet by expanding their ecosystems.

Recent experience has shown that collections organizations need to revisit their site strategies. Banks cannot afford to have all their collections eggs in one basket. Instead, agents must be geographically distributed to diversify risk. Work-from-home recovery scenarios, which banks have historically shied away from due to concerns about data privacy and security, are now a reality. And there are readily available solutions too.

Bringing it together: doing the math

Genpact estimates that a strong collections department generates \$10 in recovery for every \$1 in operational expenditure. This ratio varies depending on the channel or delivery model. For onshore resources, the ratio is approximately 7:1; for offshore, it's 11:1; and for digital, it's 25:1. Blending these approaches optimizes the customer experience, diversifies risk, and delivers the returns the business requires.

Strength in adversity

COVID-19 has ushered in a new normal. In a capital-constrained environment, we're partnering with

companies to develop creative ways to work on these three key areas. And by focusing on them, we believe that collections organizations will emerge from this crisis stronger than they were when they went into it.

About Genpact

Genpact (NYSE: G) is a global professional services firm that makes business transformation real. We drive digital-led innovation and digitally-enabled intelligent operations for our clients, guided by our experience running thousands of processes primarily for Global Fortune 500 companies. We think with design, dream in digital, and solve problems with data and analytics. Combining our expertise in end-to-end operations and our AI-based platform, Genpact Cora, we focus on the details - all 90,000+ of us. From New York to New Delhi and more than 30 countries in between, we connect every dot, reimagine every process, and reinvent companies' ways of working. We know that reimagining each step from start to finish creates better business outcomes. Whatever it is, we'll be there with you - accelerating digital transformation to create bold, lasting results - because [transformation happens here](#), at Genpact.com.

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